

## MEMORANDUM

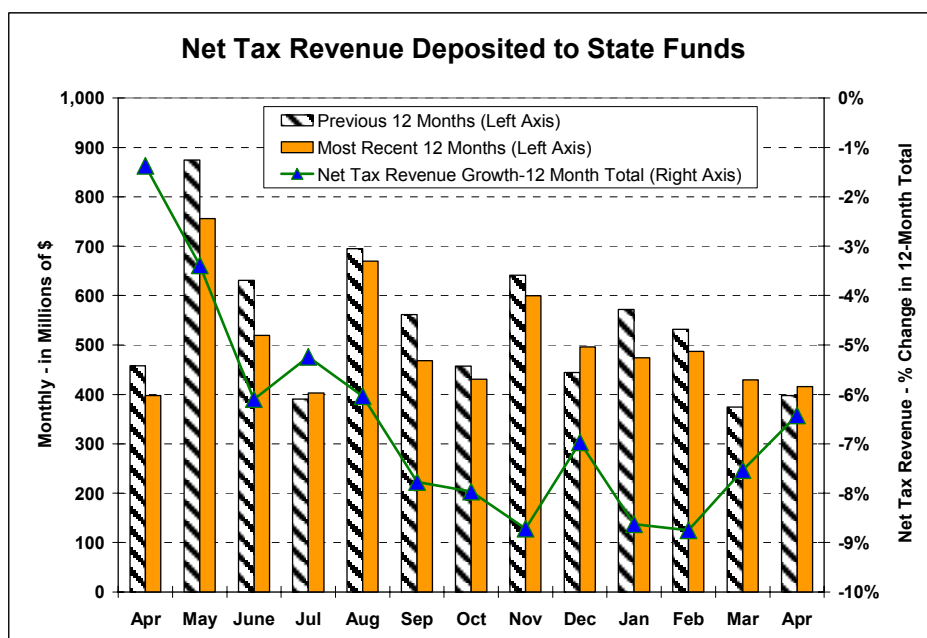
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: May 20, 2010

### Twelve-month Total Net Tax Receipts Through April 30, 2010

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending April 2010 with comparisons to the previous 12 months. April 2009 to April 2010 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Month of April Comparison

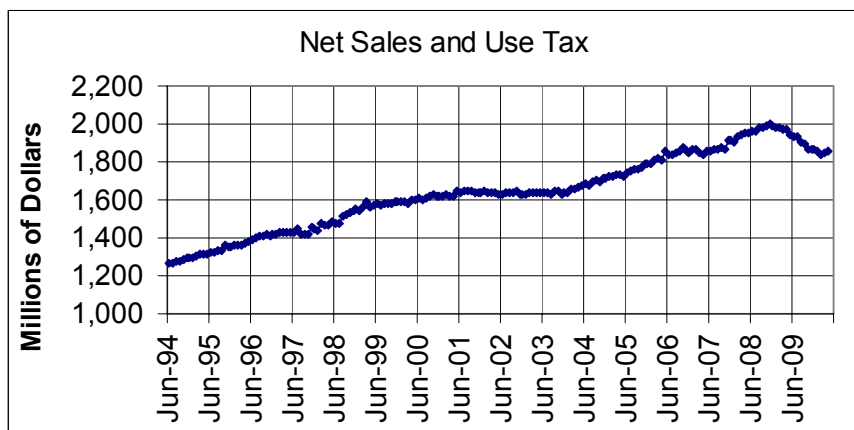
April net tax receipts totaled \$415.4 million, an increase of \$17.3 million (4.3%) compared to April 2009. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$0.7 million, - 0.4%) – Gross income tax receipts decreased \$9.7 million in April while income tax refunds decreased \$9.0 million. The gross revenue reduction was due to decreased tax year 2009 payment with return deposits. The Department of Revenue issued very few income tax refunds the last 10 days of April.
- Sales/Use Tax (positive \$9.8 million, 9.6%)
  - Road Use Tax Fund use tax and fees for new registrations increased \$1.6 million.
  - Gross General Fund sales/use tax receipts increased \$2.7 million and refunds issued for the month decreased \$5.5 million (net increase of \$8.2 million). Of the refund decrease, \$5.4 million was the result of reduced refund transfers for school infrastructure funding.
- Corporate Income Tax (positive \$6.8 million, 20.3%) – Gross corporate tax receipts increased \$16.3 million and refunds increased \$9.5 million.
- Fuel Tax (negative \$1.2 million, - 3.7%) – Gross fuel tax revenue increased \$0.3 million while refunds processed in the month increased \$1.5 million.
- Cigarette & Tobacco Taxes (positive \$1.0 million, 5.3%) – Cigarette and tobacco tax revenue has now posted gains in each of the past three months.
- Gambling Tax (negative \$0.7 million, -2.3%) – Total adjusted gross revenue for Iowa's 17 State-regulated gambling facilities decreased 1.5% in April 2010, compared to April 2009, and gambling tax revenue growth has now been negative for 14 consecutive months.

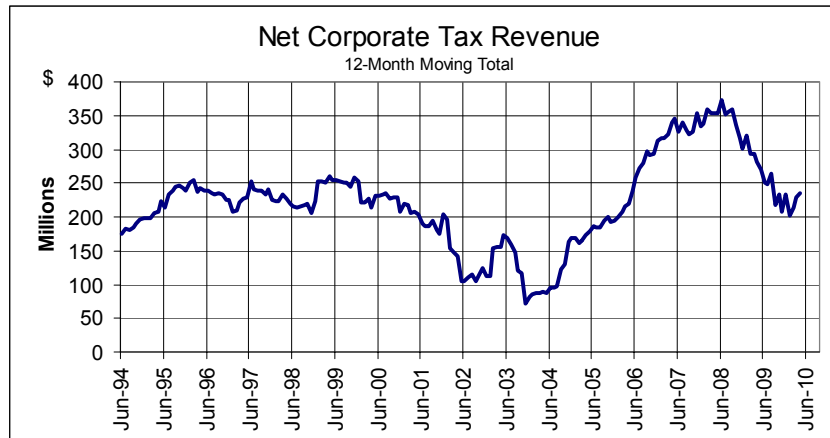
### Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending April 2010, net revenue from all taxes deposited to State funds totaled \$6.149 billion, a decrease of \$421.9 million (- 6.4%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$177.3 million, - 6.3%) – The rate of individual income tax receipt growth peaked in May 2008 at 11.8% year-over-year. The annual growth rate bottomed at negative 9.3% in February 2010 and now stands at negative 6.3%.
- Sales/Use Tax (negative \$138.1 million, - 6.2%) – Net sales/use tax receipts have now posted two consecutive positive months, something that has not occurred since the fall of 2008.



- Corporate Tax (negative \$45.3 million, - 16.1%) – The April gain in net corporate income tax was the third consecutive positive month and the fifth of the past seven. The most recent 12-months have produced \$235.9 million in net corporate income tax, and this is down \$136.0 million (- 36.6%) from its June 2008 peak. The following chart provides an historical depiction of net Iowa corporate income tax revenue.



- Fuel Tax (positive \$1.4 million, 0.3%) – Net motor fuel tax revenue has been weak the past twelve months, likely the result of decreased economic activity caused by the recession. According to Department of Revenue fuel sales reports, over the most recent 12-month period Iowa taxable gasoline/ethanol gallons sold increased 1.5% while taxable diesel sales were down 4.9%, the eighteenth consecutive month showing a decline in annual taxable diesel sales. Taxable diesel sales over the most recent 12-month period were 10.6% below the March 2008 peak sales level.
- Gambling Tax (negative \$17.4 million, - 5.8%) – Despite expansions of casinos in Clinton and Dubuque, two changes providing boosts to year-over-year gambling growth in Iowa; gambling tax revenue is negative over the past 12 months. According to Racing and Gaming Commission statistics, twelve of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending April 2010. The AGR growth for all facilities was negative 3.8% over the past 12 months. Excluding the two expanded facilities, growth was negative 5.0%.
- Cigarette and Tobacco Tax (negative \$14.7 million, - 6.0%) – Economic conditions, Iowa's indoor smoking ban, and an increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- Insurance Premium Tax (negative \$20.4 million, - 20.4%) – The decline in insurance premium tax revenue is the result of expanded use of tax credits, including credits earned through an insurance company's own activities as well as transferable tax credits purchased from others.

### Tax Spotlight – Cigarette Tax and Tobacco Tax

Tobacco products are taxed under the authority of Iowa Code Chapter 453A. Based on law changes during the 2007 legislative session:

- Cigarettes (and little cigars) are taxed at \$.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.

- Cigars are taxed at 50.0% of the wholesale price per cigar, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.

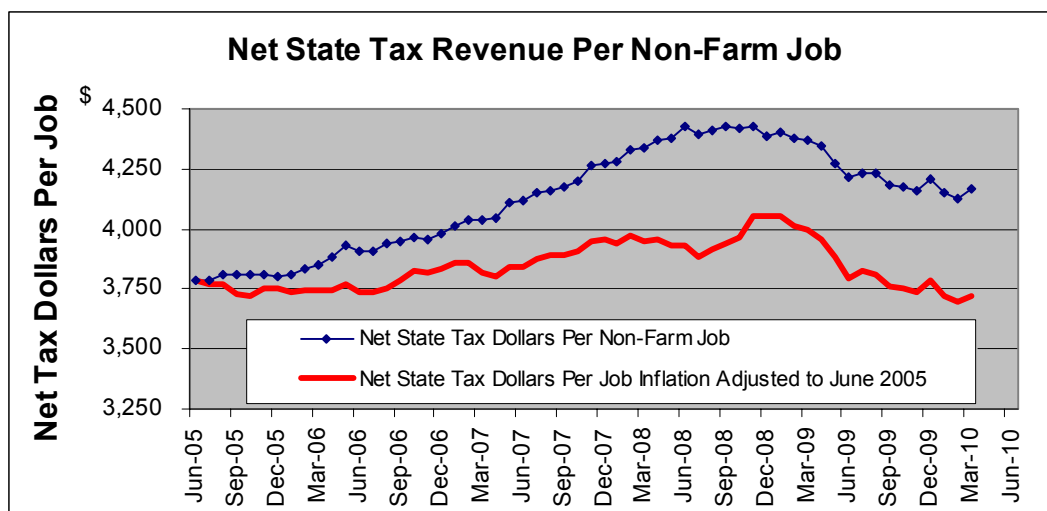
The Iowa cigarette tax was enacted in 1921 at a rate of \$.02 per pack of 20 cigarettes (HF 678, Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack and then increased in 1991 to \$0.36 per pack. The tax remained at \$0.36 per pack until the 2007 Legislative Session. The current State tax rates went into effect on March 16, 2007.

The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price (HF 702, Division 1, Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns are to be filed by the holder of a state or manufacturer's permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarettes) tax returns must be filed by the 20th day of each month for the preceding calendar month. Revenue received from the cigarette and tobacco tax is deposited in the State General Fund. Beginning in FY 2008, the first \$127.6 million generated from the cigarette and tobacco tax is appropriated annually to the Health Care Trust Fund (Iowa Code Chapter 453A). House File 811 (Health and Human Services Appropriations Act of 2009) reduced the appropriation amount to \$117.8 million beginning in FY 2010 and House File 2526 (Health and Human Services Appropriations Act of 2010) reduced the annual appropriation to \$106.0 beginning in FY 2011.

## Tax Revenue and Employment

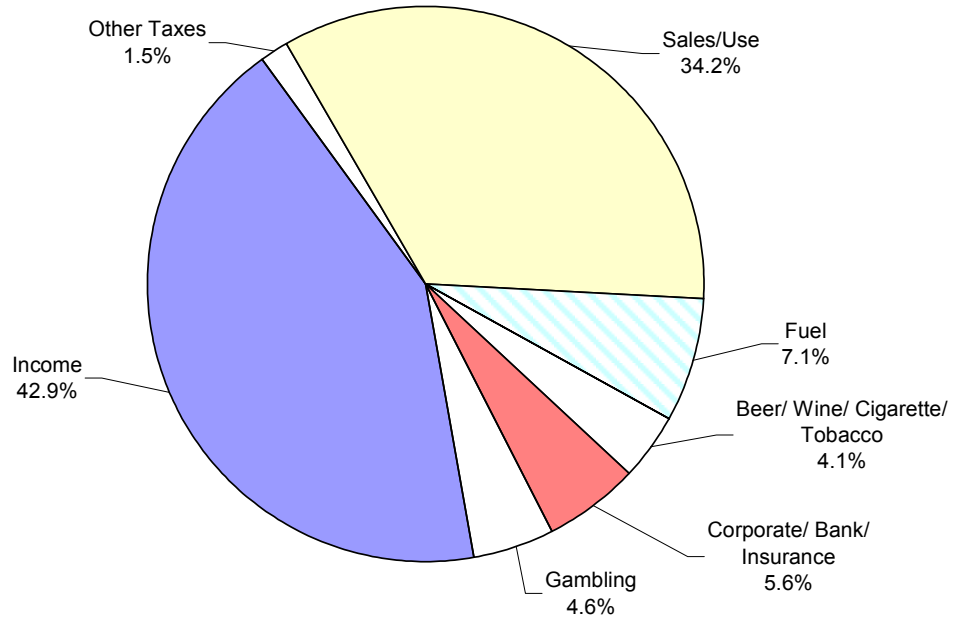
The average reading for Iowa non-farm employment over the 12 months ending March 2010 is 1,471,600, and net State tax receipts over the same 12 months totaled \$6.131 billion, or \$4,166 per non-farm job. This is \$381 (10.1%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 11.9%. Therefore, tax revenue per job has trailed the rate of inflation since July 2005 by roughly 0.4% per year. The following chart provides a historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending April 2010

**Net Revenue = \$6.149 Billion**

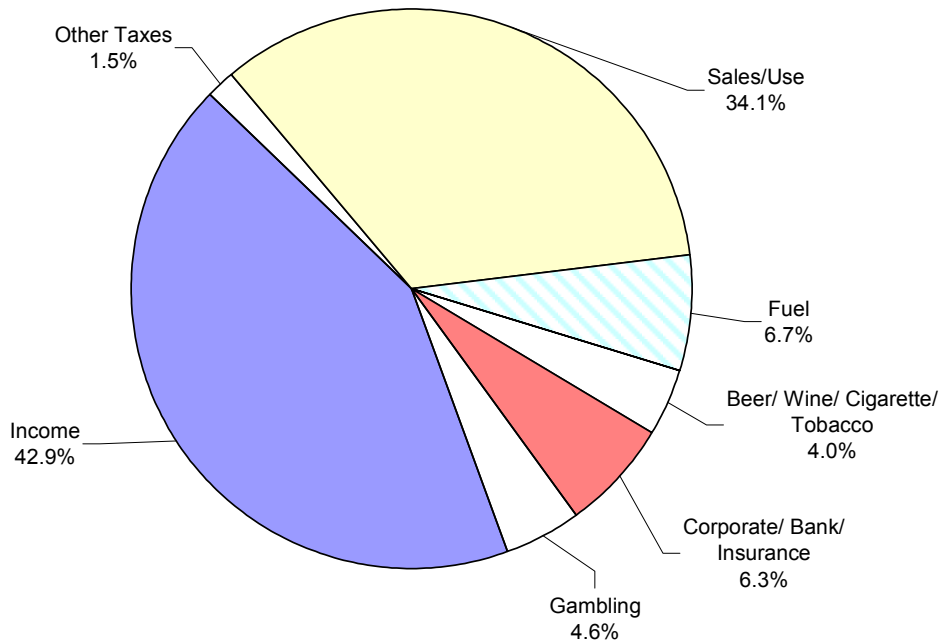
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending April 2009

**Net Revenue = \$6.571 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of April 2009	Month of April 2010	April \$ Change	April % Change
Banking	\$ 30.6	\$ 27.9	\$ - 2.7	-8.8%	\$ 4.5	\$ 5.0	\$ 0.5	11.1%
Beer & Wine	20.9	21.2	0.3	1.4%	1.6	1.7	0.1	6.2%
Cigarette & Tobacco	243.4	228.7	- 14.7	-6.0%	18.9	19.9	1.0	5.3%
Corporate Income	281.2	235.9	- 45.3	-16.1%	33.5	40.3	6.8	20.3%
Fuel	438.0	439.4	1.4	0.3%	32.4	31.2	- 1.2	-3.7%
Gambling	300.0	282.6	- 17.4	-5.8%	29.8	29.1	- 0.7	-2.3%
Individual Income	2,815.9	2,638.6	- 177.3	-6.3%	171.3	170.6	- 0.7	-0.4%
Inheritance	75.5	69.6	- 5.9	-7.8%	3.6	4.8	1.2	33.3%
Insurance	100.2	79.8	- 20.4	-20.4%	- 1.5	0.0	1.5	--
Other Taxes	7.5	8.4	0.9	12.0%	0.2	- 0.4	- 0.6	-300.0%
Real Estate Transfer	14.8	12.1	- 2.7	-18.2%	1.2	0.8	- 0.4	-33.3%
Sales/Use	2,242.7	2,104.6	- 138.1	-6.2%	102.6	112.4	9.8	9.6%
<b>Total Net Taxes</b>	<b>\$ 6,570.7</b>	<b>\$ 6,148.8</b>	<b>\$ - 421.9</b>	<b>-6.4%</b>	<b>\$ 398.1</b>	<b>\$ 415.4</b>	<b>\$ 17.3</b>	<b>4.3%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,716.0	\$ 7,413.7	\$ - 302.3	-3.9%	\$ 596.2	\$ 609.3	\$ 13.1	2.2%
Tax Refunds	\$ - 1,145.1	\$ - 1,264.9	\$ - 119.8	10.5%	\$ - 198.2	\$ - 193.6	\$ 4.6	-2.3%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,604.4	\$ 5,225.5	\$ - 378.9	-6.8%	\$ 314.2	\$ 332.5	\$ 18.3	5.8%
Road Use Tax Fund	\$ 709.3	\$ 689.1	\$ - 20.2	-2.8%	\$ 53.1	\$ 53.6	\$ 0.5	0.9%
Non-GF Gambling	\$ 238.1	\$ 215.0	\$ - 23.1	-9.7%	\$ 29.5	\$ 28.9	\$ - 0.6	-2.0%
Other State Funds	\$ 19.1	\$ 19.2	\$ 0.1	0.5%	\$ 1.2	\$ 0.6	\$ - 0.6	-50.0%
<b>Local Option Taxes *</b>	<b>\$ 784.0</b>	<b>\$ 777.1</b>	<b>\$ - 6.9</b>	<b>-0.9%</b>	<b>\$ 81.6</b>	<b>\$ 75.1</b>	<b>\$ - 6.5</b>	<b>-8.0%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All corporate tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$6.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund (increased to \$66.0 million beginning FY 2010). Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, and the Vision Iowa Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited to the State General Fund. A total of \$4.0 million per year is deposited to the Workforce Development Fund (\$4.0 million). An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited to the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% to the State General Fund, 5.0% to the Housing Trust Fund, and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.